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CIRCULAR No. 5.

United States Department of Agriculture,

SECTION OF FOREIGN MARKETS.

[Under the immediate supervision of the Secretary of Agriculture.]

The Treaty of Shimonoseki Between China and Japan of April 17, 1895, and Our Possibilities of Trade with Those Countries.

The following circular is compiled from British and French official sources, and also from the late reports of Mr. Jernigan, the United States consul at Shanghai, China, to the State Department, for the purpose of showing the possibilities of an increased trade between those countries and the United States, and the present keen and intense competition manifested for securing it by European nations. It is published as a matter of grave commercial importance at this time to our agricultural and industrial interests in the practicable future exploitation of our trade with the Eastern Asiatic countries. The commercial clauses are appended.

Article VI of the treaty provides as follows:

ARTICLE VI. All treaties between China and Japan having come to an end in consequence of war, China engages immediately upon the exchange of the ratifications of this Act, to appoint plenipotentiaries to conclude, with the Japanese plenipotentiaries, a Treaty of Commerce and Navigation and a Convention to regulate Frontier Intercourse and Trade. The Treaties, Conventions, and Regulations now subsisting between China and European Powers shall serve as a basis for the said Treaty and Convention between Japan and China. From the date of the exchange of the ratifications of this Act until the said Treaty and Convention are brought into actual operation, the Japanese Government, its officials, commerce, navigation, frontier intercourse and trade, industries, ships and subjects, shall, in every respect, be accorded by China most favored nation treatment.

China makes in addition the following concessions, to take effect six months after the date of the present Act:

First. The following cities, towns, and ports, in addition to those already opened, shall be opened to the trade, residence, industries, and manufactures of Japanese subjects, under the same conditions and with the same privileges and facilities as exist at the present open cities, towns, and ports of China:

1. Shashih, in the province of Hupeh.
2. Chunking, in the province of Szechuan.

3. Suchow, in the province of Kiang Su.

4. Hangchow, in the province of Chekiang.

The Japanese Government shall have the right to station consuls at any or all of the above-named places.

Second. Steam navigation for vessels under the Japanese flag, for the conveyance of passengers and cargo, shall be extended to the following places:

1. On the Upper Yangtze River, from Ichang to Chunking.

2. On the Woosung River and the Canal, from Shanghai to Suchow and Hangchow.

The Rules and Regulations which now govern the navigation of the inland waters of China by foreign vessels shall, so far as applicable, be enforced in respect of the above-named routes, until new Rules and Regulations are conjointly agreed to.

Third. Japanese subjects purchasing goods or produce in the interior of China, or transporting imported merchandise into the interior of China, shall have the right temporarily to rent or hire warehouses for the storage of the articles so purchased or transported, without the payment of any taxes or exactions whatever.

Fourth. Japanese subjects shall be free to engage in all kinds of manufacturing industries in all the open cities, towns, and ports of China, and shall be at liberty to import into China all kinds of machinery, paying only the stipulated import duties thereon.

All articles manufactured by Japanese subjects in China shall, in respect of inland transit and internal taxes, duties, charges, and exactions of all kinds, and also in respect of warehousing and storage facilities in the interior of China, stand upon the same footing and enjoy the same privileges and exemptions as merchandise imported by Japanese subjects into China.

In the event additional Rules and Regulations are necessary in connection with these concessions, they shall be embodied in the Treaty of Commerce and Navigation provided for by this Article.

The clauses of the above article of the treaty are worthy of attention, for they promise to open up to foreign commerce a new and hitherto unexploited market in the interior of China. No doubt the Japanese will themselves profit by its stipulations, as well as other countries, under the "most favored nation" clause. Heretofore the existing treaties between China and Japan contained no such clause, and while it concedes commercial equality to Japan, it contains concessions beneficial to, and expansive of, Asiatic commerce. The first concession relates to the four new ports of Shashih, Chunking, Suchow, and Hangchow, which will be opened to foreign commerce under the same conditions as the twenty-four ports previously opened.

Chunking, on the upper Yangtze River, has been, at least nominally, open to foreign commerce since 1890. It is an important center with a population of over 200,000 inhabitants, and is, besides the commercial metropolis of Szechuan, the richest and most thickly populated province of China. Shashih is situated lower down on the Yangtze River than Chunking, being about 92 miles below Tchang, the last port but one opened on the river.

Suchow and Hangchow are two important towns, situated at opposite ends of the canal of Woosung, a prolongation of the Imperial Canal. The right of way in two directions is provided for on the upper Yangtze River between Tchang and Chung and on the canal of Woosung between Suchow and Hangchow.

"In the interior of China," a frequent repetition of which occurs in the treaty, is a term that will probably be of much import in the future, as Japan was under other restrictions which did not apply to western nations in existing treaties with them. The merchants of Europe and America were free to trade in the interior of China, while Japanese merchants were confined to the limited bounds of the settlements at the open ports; the goods imported by Japanese merchants were subjected to heavy imports in passing into the interior, while the goods of western mer chants were subject to pay only transit dues amounting to one-half of the sum levied by the customs. There is one provision of the treaty, however, which exempts the merchandise of western merchants from an additional charge, for, although free to carry goods in the interior on the payment of comparatively small import duties, they were required to pay heavy transit dues when they desired to store goods in the interior. This inconvenience the new treaty removes.

The most important provision of the treaty is that which makes it free to carry on manufacturing industries. This provision virtually opens China to new enterprises, and the kindred provision, relating to the free import of machinery, may be accepted as fully explanatory of the article contained in the commercial treaty between China and western nations—being the first definite statement as to machinery which, in the past, has been imported under the name of commodities. Only a few years ago when cotton gins were sent from Japan to Shanghai, the customs authorities objected on the ground that China did not allow foreigners to engage in manufacturing industries in the interior and, therefore, the importation of machinery for manufacturing purposes could not be permitted; but now machinery, as well as other merchandise, can be imported.

The enormous stride that Japan has lately made in the manufacture of silk and cotton goods is shown by her importation of spinning machinery, the value of which in 1893 amounted to above $955,000 and in 1894 to about $1,445,000.

While in 1887 there were at Kobé, Osaka, and vicinity only 19 cotton spinning factories, with 70,220 spindles, this industry has increased in eight years to such an extent that there are at present seven times the number of spindles at work. In 1893, there were 40 cotton spinning establishments, with a total number of 381,781 spindles, which produced yarns to the extent of about 87,667,324 pounds, and in the year 1894 the output amounted to little short of 90,000,000 pounds of

cotton yarn. In February, 1895, there were 47 cotton spinning establishments at work with an aggregate number of 492,979 spindles, and in view of the increased importations of cotton spinning machinery referred to above, this number may be expected to be further increased. At the same time the proportionate production of cotton yarns to importation has changed completely; while in 1887 the percentage of cotton yarn produced in Japan was 18 as against 82 per cent imported from abroad, in 1893 the proportion had changed to 71 per cent produced in Japan against 29 per cent imported from abroad.

The place, up to the present time, where this industry has most suffered from the production of cotton yarns in Japan, is that of Bombay, where very large quantities of the coarse numbers of thread are produced and their importation from British India into Japan has decreased in the last five or six years by from 50 to 75 per cent, while the importations of yarns from the United Kingdom, which are of finer description, have remained almost stationary.

It is quite possible that the British cotton manufacturers may find themselves affected if the Japanese take to using a larger proportion of American cotton, of which the long staple permits much finer numbers to be spun than the shorter Chinese staple, which is at present the kind used by the Japanese. It is possible that this contingency may be remote for this reason, namely, that the principal customer of Japan for these coarser yarns is, and is likely to continue to be, China, where the habits and traditional customs will cause the continuance of the use of them.

Cotton spinning and weaving in Japan must now be regarded as a home trade for the home market, for the export of cotton tissues in the year 1893 amounted in value to about $815,000, while that of cotton yarns amounted to the value of only about $30,000. These are insignificant, but it is this cotton industry which may be expected to profit most from the commercial clauses of the treaty of Shimonoseki, for the extreme cheapness of labor, besides other circumstances, such as the present rate of exchange, gives to the cotton spinner of Osaka such advantages in the matter of cost of production that he is able to work 50 per cent cheaper than the cotton spinner of Bombay, who also has many considerable advantages, as compared with Manchester or American producers. In this connection, it may be well to observe that the average daily wages of a male operative in Japan, calculated at the present rate of exchange, amounts to 8 cents a day, while that of a female operative at the same rate is 5 cents a day. The linen trade also shows large increases in Japan; in 1889 the exports of linen goods amounted to about $3,750; in 1893 this amount had risen to $53,452. Linen yarns have also been exported during the last few years, and it is stated that they have been sold at a loss in order that the manufacturers

might obtain a footing on the Chinese market. The general trade exports and imports together rose from 26,000.000 silver yen* in 1868 to 179,800,000 silver yen in 1893, of which exports were 90,400,000 silver yen, and imports 89,400,000 silver yen.

These are large figures, and when taken in conjunction with the activity of the people and the richness of the country in coal and mineral ores generally, they indicate the possibility of large extension in the future, and the rise of a commercial power which may seriously compete with western commerce in the far east.

After raw cotton, the most important article of import into Japan is sugar, and the cession of the island of Formosa must not be forgotten. Formosa being in the hands of the Japanese, a large development in the production of sugar in that island may be looked for in the near future, which will undoubtedly effect considerable alterations in the sugar trade in the far east. In 1893 sugar was imported to the value of about $5,625,000. The largest proportion of this came from the Dutch Indies and Queensland via Hongkong.

In view of the great possibilities of the extension of trade in interior China attention is called to the proceedings of the Lyons (France) Chamber of Commerce which has organized and sent out a commercial mission to China, for the maintenance of which during a period of two years large sums of money have been subscribed, and circulars have been sent to all of the leading chambers of commerce of France.

The French ministry of foreign affairs and the ministry of commerce have given special advantages to the mission, which has an official status. It is composed of twenty members—manufacturers, engineers, doctors, etc.—and is under the command of M. Emile Rocher, the French consul at Mengtze in the Province of Tunnan, who has lived 25 years in China and the extreme East and has a thorough knowledge of the country to be explored and the Chinese language. The working members of it are young men who have passed with credit through higher commercial schools and have gained some practical experience in what is called the "politics of commerce." The mission goes direct to Shanghai, from thence it will ascend the Yangtze River as far as the city of Chun-king, which will be the headquarters. Making Chun-king a center, expeditions will be sent out over the provinces of Szechuan, Hunan, and Quei-Chow, and a thorough exploration will be made of the southwest province of Yunnan, one of the richest of China, in mineral products yielding gold, copper, tin, rubies, sapphires, and other gems, besides a variety of gums, varnishes, ivory, musk, flax, and horses. In this province a junction will be effected at Yunnan-fou, the capital of the province of Yunnan, with a similar expedition organized in the town of Tongking, in the province of Tong-

*The average value of the silver yen, in 1893, was about $0.62.

king, and the two will devote their combined efforts to making a complete survey of the region which adjoins Tongking and to ascertain the advantages to be derived for Tongking from the development of the province of Yunnan.

The circular of the Lyons Chamber of Commerce states:

It is beyond question that the recent events of the war between China and Japan must lead to a revolution in the policy of the Celestial Empire, more especially as regards the facilities and commercial advantages conceded to Europeans. At a time when the Great Western Powers are about to obtain a greater freedom to penetrate into the interior of the country, and will possibly be enabled to install commerce and industrial establishment, it has struck us that it would be materially conducive to the commerce and manufactures of our district that a body of young men possessed of adequate technical training should be instructed to investigate on the spot the resources and commercial riches capable of being turned to profitable account.

Our principal exports to Japan are wheat, flour, clocks, and watches, machinery and other manufactures of iron and steel, sole leather, refined mineral oil, provisions comprising meat and dairy products, and manufactured tobacco.

During the fiscal year ending June 30, 1894, we exported to Japan $3,986,815 worth of merchandise and in 1895 $4,634,655 worth; in 1894 we imported from Japan $19,426,522 worth and in 1895 $23,682,583 worth. The principal articles of merchandise that China takes from us are cotton cloths, mineral oils, manufactures of tobacco, and wheat flour. Of all classes of merchandise the United States exported to China in the fiscal years 1894 and 1895 $5,862,426 worth and $3,603,365 worth, respectively. The United States imported from China in the same years, 1894 and 1895, $17,135,028 worth and $20,544,792 worth, respectively.

Mr. Jernigan, U. S. consul at Shanghai, in his report says:

Chinese merchants, as a class, are honest. They meet their obligations as promptly, perhaps, as any merchants in the world. The foreign banks and business houses in China will bear willing testimony to the general uprightness of the merchants of China, and in dealing with them it will be found that they seldom violate their word.

The system of payment is also to be considered. In China, payments are made periodically—about the 5th of May, the 15th of July, and the end of December. This custom of meeting obligations necessitates conducting business on the credit system, and consequently requires more capital than in business conducted on a cash basis.

There is one feature of the relations between the merchants and farmers of China that seems to have been borrowed from America, but which is Chinese and doubtless was a part of the business transactions between mercantile and commercial classes of China before America was discovered—it is the crop lien. The information I have on this immediate subject relates more particularly to Chunking. There, it is represented that in proportion to the general status of the people the number of wealthy farmers and merchants is very considerable; and it is the custom for the merchants to advance money on goods to the small

farmers and take as security the unharvested crop. Thus, tempted by immediate gain, which invariably blinds foresight, the farmer yields, and when his crop is harvested finds but little remaining after satisfying obligations incurred when planting and cultivating it. The making of liens on growing crops, or on crops to be grown, was a practice of the Chinese farmer long before it was introduced into the Occidental world, and with the results attending its practice in the United States.

Another subject worthy of consideration is that there is not a banking institution conducted by American capital and Americans in either of the nations named. The establishment of a bank in China or Japan by American capitalists would, at least, give the color of permanency to American enterprise in Asia.

China being a country incomparable in resources, and acknowledged to be the wealthiest in the world, the question may well be asked, why should not American capitalists recognize a primary principle in the extension of the trade relations of their country? Great Britain, France, and Germany have banks in China and Japan, and the merchants of these nations are supported by the banking institutions of their own countries, and they have been dividing the profits of Asiatic commerce. American merchants in Asia have no such encouragement, and are compelled to transact their business through foreign banks.

Besides, if American capitalists and merchants propose to make permanent business investments in China, they should study with the greatest diligence the wants of the Chinese, and not venture too far without accurately estimating all the surroundings.

It may be said that China is the great undeveloped country of the world, and that new developments, attended with profit, await well-directed enterprises in this Empire.

A British Commercial Commission for China.

During July, 1895, the Chamber of Commerce of Blackburn, a town near Manchester, passed a resolution to send a commercial mission to China. Advices just received state that this resolution has been further discussed by that body. Its objects are: To study the economic phases of the country as a field for British trade; to ascertain what kind of merchandise can find a market in China, taking into consideration the climate as well as the tastes and the purchasing power of the people; and to make a report on transportation, transit, and mercantile credits. It was proposed to secure the cooperation of the chambers of commerce of the entire kingdom and also to solicit the government to bestow official standing upon this mission with the Chinese Government. In view of the fact that recent British consular reports show a retrograde movement of the British trade with China it was opined that no difficulties would be experienced in securing the means for defraying the expenses of the proposed expedition.

Washington, D. C., *October 16, 1895.*